TESTIMONY OF MIKE HYDE

Thank you, Madam Chairman and Members of the Oceans and Fisheries

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Participation in the PCC is voluntary; however, it is unlikely that it could succeed without 100 percent participation by eligible participants in the catcher/processor sector. If a single, qualified entrant continued to engage in a race for fish, it would likely undermine collective efforts by the remaining fishing companies to rationalize fishing practices. It is instructive that the eight PCC members, which include both large and small companies, recognize that it is in their individual and collective best interests to eliminate the race for fish.

While the PCC was not formed under any specific legislative authority, there is a strong precedent for formation of the cooperative. In 1997, four catcher/processor companies requested a business review letter from the Department of Justice's Antitrust Division prior to forming the Pacific Whiting Conservation Cooperative (PWCC). In its business review letter, the Department of Justice noted that fish harvesting cooperatives could be expected to benefit consumers. The Antitrust Division's letter of May 20, 1997 to the PWCC stated, *"To the extent that the proposed agreement allows for more efficient processing that increases the usable yield (output) of the processed Pacific Whiting and/or reduces the inadvertent catching of other fish species whose preservation is also a matter of regulatory concern, it could have pro-competitive effects."* The PCC has also requested a business review letter from the Justice Department and a response is expected soon.

While the American Fisheries Act (AFA) did not provide statutory authority for formation of a catcher/processor cooperative, the AFA made two key changes to the Bering Sea pollock management structure that facilitated formation of a cooperative. First, the AFA created a three-sector allocation in the Bering Sea pollock fishery, providing a certain percentage of the overall quota to the catcher/processor, mothership and inshore sectors. The 1997 Justice Department opinion cited above made clear that existing law allowed a sector composed of vertically integrated harvesting and processing components to form a harvest cooperative. Second, the AFA specified eligible participants in the catcher/processor sector. A co-op of current participants in a fully subscribed fishery would not be viable if non-pollock fishermen were free to enter the fishery. The new participants would either race to catch fish, undermining efforts by co-op members to rationalize the fishery, or demand catch allowances in a fishery in which they had not previously participated.

2. <u>The PCC--Reducing Fishing Capacity and Fishing Effort.</u>

Recognizing the chronic problem of over capacity in the Nation's fisheries, the SFA included a provision designed to "achieve the maximum sustained reduction in fishing capacity…in a minimum amount of time." Patterned after the SFA provision on capacity reduction, the American Fisheries Act took the first meaningful step to addressing chronic overcapitalization in the pollock fishery. The AFA, which reallocated a substantial portion of the pollock quota away from the catcher/processor sector and to the inshore sector, established a fee on the inshore pollock sector to pay most of the cost of retiring nine catcher/processors

from the fishery. (Consistent with U.S. government policies to promote sustainable fisheries by addressing the root problem of overcapitalization in many world fisheries, the AFA required the scrapping of eight of the nine catcher/processors being bought out.)

Implementation of the cooperative was a vital next step for achieving further reductions in harvesting and processing capacity. By ending the race for fish, the co-op eliminates the incentive to employ fishing and processing capacity beyond what is needed to take the available harvest. As a result, in the winter/spring pollock seasons, 16 of the 20 eligible catcher/processors fished. In the summer/fall fishing seasons, only 14 of the 20 pollock catcher/processors participated in the fishery. By and large, the idle vessels are owned and operated by multi-vessel companies that can catch their assigned quota without fishing all of their vessels. It is difficult for multi-vessel companies to permanently retire the idled vessels since the allocation regime expires in 2004 and there is no assurance that a race for fish will not return. However, one of the 20 AFA-eligible catcher/processors is being permanently retired from U.S. fisheries. Alaska Trawl Fisheries, which operates the *F/T Endurance*, recently announced that the vessel is leaving the fisheries and under the AFA is not permitted to regain its fishery endorsement. The vessel's assigned quota is being purchased, and will be distributed on a pro rata basis among the remaining PCC members.

In addition to helping reduce the number of vessels actively fishing, formation of the PCC resulted in operational changes by participating vessels to slow fishing effort on a daily basis. A head-to-head comparison of the daily catch rates of the 16 PCC vessels that fished the 1999 winter/spring pollock fishery with the same vessels' daily catch rates under the open access system from 1995-1998 shows a 60 percent reduction in daily catch rates for the 16 PCC vessels. The 16 PCC vessels made fewer tows per day and harvested fewer fish per tow than they did under the race for fish. Slowing the pace of the pollock fishery doubled the length of the catcher/processors' season from 75 days in 1998 to 151 days in 1999.

According to NMFS, slowing down harvesting activity by cooperative fishing provides an important conservation benefit. In 1999, the agency promulgated regulations to spread the pollock fishery out over a longer period of time to avoid any potential competition between pollock fishers and populations of Steller sea lions foraging for pollock. A recent NMFS report summarizing the agency's actions to protect sea lions credits the PCC for significantly reducing fishing effort and furthering the agency's objective of temporally dispersing the pollock fishery.

3. The PCC—Improving Fisheries Management, Reducing Bycatch, Increasing Utilization and Conserving Marine Resources.

The SFA included a section titled, "North Pacific Fisheries Conservation," that directed regional fishery managers to take certain actions to improve catch measurement, reduce bycatch, and increase utilization of fishery resources. The North Pacific Fishery Management Council (the Council) and NMFS responded to Congress' mandate by developing and

implementing regulations requiring certain vessels, including all pollock catcher/processors, to be equipped with flow scales to weigh all harvested fish. To reduce the incidental harvest of non-target species, the Council passed and NMFS approved a prohibition on bottom trawling for pollock. Vessels in the directed pollock fishery now use only mid-water trawl fishing gear. Finally, fishers must retain all pollock and cod harvested regardless of the target fishery in which they are participating. Historically, large amounts of pollock and cod were discarded by fishers who were targeting other groundfish species.

It is important to point out that, notwithstanding specific SFA provisions intended to enhance conservation of the North Pacific groundfish fishery, it is a widely held view that the North Pacific groundfish fisheries are well managed. In particular, the Bering Sea pollock stock is healthy and abundant. Scientists estimate the Bering Sea pollock biomass at 7.7 million metric tons. Harvests of pollock, and other groundfish species, are strictly regulated by a system of quotas, and fisheries scientists and managers are conservative in determining the annual catch limits. A NMFS report recently stated that, "Over the past 20 years, harvest rates could have been 20% or more higher if Alaska pollock stocks were managed using less conservative but acceptable harvest rates comparable to those currently used to manage similar gadid stocks elsewhere in the world." A comprehensive federal fishery observer program that includes 100% coverage on all vessels 125 feet in length and larger enhances in-season management capabilities. (PCC member vessels carry two federal fishery observers at all times. In 1999, federal fishery observers sampled 4,704 of 4,797 pollock catcher/processor hauls, or 98% of all hauls.)

a. <u>Improving Fisheries Management.</u>

Monitoring and enforcement is a critical element of the PCC program. NMFS, of course, continues to tally total harvests by catcher/processors in order to ensure fleet-wide compliance with sector allocations. However, the PCC contracts with a private sector firm, SeaState, to track daily NMFS' observer catch data to ensure that each PCC member stays within its agreed upon harvest limits. The PCC imposes significant financial penalties on any company that exceeds its assigned quota. In 1999, there were no enforcement actions taken against any PCC members. As noted above, catch measurement is precise because vessels are equipped with flow scales, which weigh the fish as it moves along conveyor belts in the factory. Another important facet of cooperative fishing is that SeaState also monitors NMFS' observer data on incidental catch. SeaState identifies for all PCC members fishing areas to be avoided, if vessel reports indicate that high levels of non-target species catch are being encountered.

b. <u>Reducing Bycatch/Economic and Regulatory Discards.</u>

The SFA defines bycatch as fish that are caught but not kept, including economic and regulatory discards. Because pollock swim in enormous, dense schools and generally congregate off the ocean floor, there is little incidental catch of non-pollock species in the fishery. In 1999, approximately 99% of the PCC members' catch in the pollock fishery were

pollock. With the new increased retention requirements for pollock and cod and the advent of a cooperative that allows fishers to fish more carefully, we estimate that in 1999 our fleet's economic discard rate was less than three-quarters of one percent. In contrast, the United Nations Food and Agricultural Organization estimates that worldwide fishing fleet discard over 25% of their harvested catch. The overall discard rate in the Bering Sea groundfish fishery is just under 10%.

c. Increasing Utilization of Fishery Resources.

Preliminary data comparing catcher/processors operating in both 1998 and 1999 indicate that the amount of product made by PCC members from a given amount of pollock increased by more than 20 percent in 1999. By ending the race for fish, the cooperative allows fishers to make smaller tow sizes that reduce bruising and damage to harvested fish, fostering increased utilization. The rational pace of fishing also allows vessel captains additional time to locate schools of larger-sized fish and fishers can use fishing nets with larger meshes that enable more, smaller-sized fish to escape. From a fish processing standpoint, the cooperative allows for more exacting processing techniques. The slower pace in the fish processing factory can help ensure more precise cuts and provide for other, more labor-intensive activities that increase utilization.

In 1999, the rational pace of fishing also enhanced opportunities to make higher-value products and higher-grade products. PCC members significantly increased the proportion of high-valued "deep-skin" pollock fillets produced and there was a proportional decline of lower-valued mince and fillet-block products. The fleet's ability to produce the high-grade fillet products for the domestic market, as well as *surimi* and roe products for export, boosts the U.S. industry's competitiveness in the world commodity market for whitefish products.

d. Conserving Marine Resources.

The PCC agreement includes a commitment to develop and fund research programs to promote conservation and management of marine resources. The PCC expects to spend $300,000 per year on marine research, including contributing $100,000 annually in 1999-2001 to the North Pacific Universities Marine Mammal Research Consortium. The Consortium conducts scientific research that seeks to determine the cause of the decline of Steller sea lion populations and to discern what measures, if any, can be taken to aid in the recovery of the species. Furthermore, the PCC has contributed $25,000 to support marine mammal research projects at the Alaska Sealife Center in Seward, Alaska and has funded a project to catalogue research findings on the impacts of trawl fishing.

4. The PCC Provides Economic Stability in Fishing Communities, including the Western Alaska Community Development Quota (CDQ) Groups.

Since the Bering Sea pollock fishery was fully Americanized in 1989, the race for fish

among domestic harvesters and processors spurred continued investments in capacity. By 1998, there existed three times more capacity than was needed to catch the available quota. Overcapitalization, and the attendant economic pressures of increased costs without increased benefits, sparked allocation disputes among sectors. Economic problems were exacerbated when the pollock biomass, which peaked in the late 1980's and early 1990's, declined and the TAC was lowered accordingly to ensure sustainable fishing levels. Revenue declined because production dropped and because a nearly decade-long recession in Japan resulted in steep price declines for *surimi*. Between 1994 and 1998, half of the pollock catcher/processor vessels experienced financial difficulties that either resulted in bankruptcy or forced the sale of the vessel.

The SFA emphasizes the importance of providing economic and social stability for fishing communities in the management of fishery resources. The PCC is helping achieve the SFA's goals by playing a key role in restoring economic opportunity for fishing companies as well as the 3,000 men and women employed in the pollock catcher/processor sector. Prior to 1999, employment opportunities were limited as the industry struggled with chronic overcapitalization, other economic inefficiencies caused by the race for fish, and low commodity prices. As a result of rationalizing the fishery under the co-op, crewmember compensation, often computed as a percentage of the value of the vessel's catch, has stabilized, if not increased. Increased utilization, combined with the flexibility to respond better to market demands, adds value to fish products and those gains are reflected in crewmember wages.

The economic stability offered by cooperative fishing extends to Western Alaska Community Development Quota (CDQ) groups. The CDQ program, which was created in 1992, was established as a permanent program in the SFA. The co-op has enhanced Western Alaska CDQ groups' investments in PCC member companies and vessels. Presently, the Norton Sound Economic Development Corporation owns 50% of Glacier Fish Co., which operates two pollock catcher/processors. The Bristol Bay Economic Development Corporation and the Aleutian Pribilof Island Community Development Association own 20% of the *F/T Arctic Fjord* and the *F/T Starbound*, respectively. CDQ groups are also considering investing in American Seafoods Company, which operates seven catcher/processors.

In summary, the PCC is proving to be an innovative and successful private sector initiative that is consistent with, and complementary to, many of the important goals and objectives of the Sustainable Fisheries Act. As the Oceans and Fisheries Subcommittee moves ahead in reauthorizing the Magnuson/Stevens Act, we are pleased to work with Members and staff to share our experiences and to promote the development of fish harvesting cooperatives in other fisheries.

That concludes my testimony, Madam Chairman. I am pleased to answer any questions that Members might have. Thank you.